



**Administration Division
Department of Transportation
State of Hawaii**

Financial Statements, Supplementary Information, and
Single Audit Reports
(With Independent Auditors' Report Thereon)

June 30, 2023

Submitted by
**THE AUDITOR
STATE OF HAWAII**

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Financial Statements, Supplementary Information, and Single Audit Reports

June 30, 2023

Table of Contents

	Page
PART I – INTRODUCTION SECTION	
Audit Objectives	1
Scope of Audit	1
Organization of Report	2
PART II – FINANCIAL SECTION	
Independent Auditors’ Report	3
Management’s Discussion and Analysis (Unaudited)	7
Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position – Governmental Activities	13
Statement of Activities – Governmental Activities	14
Governmental Funds Financial Statements:	
Balance Sheet - Governmental Funds	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Notes to Financial Statements	19

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Financial Statements, Supplementary Information, and Single Audit Reports

June 30, 2023

Table of Contents

	Page
Required Supplementary Information (Unaudited):	
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis) – Special Revenue Funds	44
Supplementary Information:	
Schedule of Expenditures of Federal Awards	45
Notes to Schedule of Expenditures of Federal Awards	46
PART III – INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE	
Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	47
PART IV – COMPLIANCE AND INTERNAL CONTROL OVER FEDERAL AWARDS	
Independent Auditors’ Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	49
Schedule of Findings and Questioned Costs	52

PART I

INTRODUCTION SECTION

December 19, 2023

The Auditor
State of Hawaii:

We have completed our audit of the financial statements of the Administration Division, Department of Transportation, State of Hawaii (the Division), as of and for the year ended June 30, 2023. We have also audited the Division's compliance with the requirements applicable to each of its major federal programs for the year ended June 30, 2023. We transmit here with our report pertaining to our audit of the Division's financial statements and its major federal programs.

Audit Objectives

The objectives of the audit were as follows:

1. To provide opinions on the fair presentation of the Division's financial statements and the schedule of expenditures of federal awards in accordance with accounting principles generally accepted in the United States of America.
2. To consider the Division's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements.
3. To perform tests of the Division's compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts.
4. To consider the Division's internal control over compliance with requirements that could have a direct and material effect on each of its major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance.
5. To provide an opinion on the Division's compliance with applicable laws, regulations, contracts, and grants that could have a direct and material effect on each of its major federal programs.

Scope of Audit

Our audit of the Division's financial statements, the schedule of expenditures of federal awards, and the Division's compliance with the requirements applicable to its major federal programs was performed in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance).

Organization of Report

This report has been organized into four parts as follows:

1. The Introduction Section describes briefly the objectives and scope of our audit and the organization and contents of this report.
2. The Financial Section includes management's discussion and analysis (unaudited), the Division's financial statements and related notes as of and for the year ended June 30, 2023, the budgetary comparison information (unaudited) and the schedule of expenditures of federal awards for the year ended June 30, 2023 and related notes, and our independent auditors' report thereon.
3. The Internal Control Over Financial Reporting and Compliance Section contains our independent auditors' report on the Division's internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
4. The Compliance and Internal Control Over Federal Awards Section contains our independent auditors' report on compliance for each of the Division's major federal programs and on internal control over compliance required by the Uniform Guidance, and a schedule of findings and questioned costs.

* * * * *

We would like to take this opportunity to express our appreciation for the courtesy and assistance extended to us by the personnel of the Division during the course of our engagement. Should you wish to discuss any of the matters contained herein, we will be pleased to meet with you at your convenience.

Very truly yours,

KKDLY LLC

PART II
FINANCIAL SECTION

Independent Auditors' Report

The Auditor:
State of Hawaii:

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Administration Division, Department of Transportation, State of Hawaii (the Division), as of and for the year ended June 30, 2023, and the related notes to financial statements, which collectively comprise of the Division's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Division as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Division and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

Relationship the State of Hawaii

As discussed in Note 1, the financial statements of the Division are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2023, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Division's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Division's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Division's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2023, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Division's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

KKDL Y LLC

Honolulu, Hawaii
December 19, 2023

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Management's Discussion and Analysis (Unaudited)

June 30, 2023

The following management's discussion and analysis of the Administration Division, Department of Transportation, State of Hawaii (the Division), provides a narrative overview and analysis of the financial activities of the Division as of and for the year ended June 30, 2023. It should be read in conjunction with the Division's financial statements and notes thereto, which follows this section.

Financial Highlights

- The Division's net position was \$10,006,000 at June 30, 2023, which decreased by \$230,000 or 2.2% from the prior year. The decrease in the net position was attributable to net transfers out of \$8,848,000, offset by the excess of revenues over expenses of \$8,618,000.
- The Division's current assets were \$22,989,000 at June 30, 2023, which decreased by \$3,034,000 or 11.7% from the prior year. The increase was primarily attributable to a decrease in accounts receivable of \$8,355,000, offset by an increase in cash and cash equivalents of \$5,312,000.
- The Division's capital assets, net was \$6,216,000 at June 30, 2023, which decreased by \$384,000 or 5.8% from the prior year. The decrease was primarily attributable to depreciation and amortization expense of \$555,000, offset by net additions of \$171,000.
- The Division's current liabilities were \$11,450,000, at June 30, 2023, which decreased by \$2,634,000 or 18.7%, from the prior year. The decrease was primarily attributable to the decrease in accounts payable of \$8,125,000, offset by an increase in due to other divisions and funds of \$5,593,000.

Overview of the Financial Statements

The Division's financial statements which are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements.

- *Government-Wide Financial Statements* – These statements provide a broad overview of the Division's finances using accounting methods similar to those used by private sector companies.

The statement of net position – governmental activities presents information on all of the Division's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Division is improving or deteriorating.

The statement of activities presents information showing how the Division's net position changed during the year using the accrual basis of accounting. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Management's Discussion and Analysis (Unaudited)

June 30, 2023

- *Fund Financial Statements* – The fund financial statements provide detailed information about the Division's significant funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Division's funds are considered governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Division's near-term financial position.

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds were established to account for the contracts that the State entered into for the Division with the U.S. Division of Transportation, Federal Highway Administration (FHWA) and Federal Transit Administration (FTA). The special revenue funds also include the transactions and balances of Aloha Tower Development Corporation (ATDC), a blended component unit.

The Division has an annual appropriated budget for its special revenue funds. A budgetary comparison schedule compares the special revenue fund's original budget, final budget, and actual amounts prepared on a budgetary basis. A reconciliation between the actual special revenue fund's revenues and expenditures compared to the special revenue fund's revenue and expenditures prepared for budgetary purposes is included in Note 3 of the financial statements. The budgetary schedule has been provided for these funds to demonstrate compliance with the budget and is presented as required supplementary information.

- *Notes to financial statements* – The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Management's Discussion and Analysis (Unaudited)

June 30, 2023

Government-Wide Financial Analysis

The statement of net position reflects the Division's financial condition at the end of the year on the accrual basis of accounting. As of June 30, 2023 and 2022, the Division's total net position was \$10,006,000 and \$10,236,000, respectively.

The following presents a summarized comparison of the Division's net position as of June 30, 2023 and 2022.

Condensed Statements of Net Position

June 30, 2023 and 2022

(Rounded to nearest \$1,000)

	2023	2022
Assets:		
Current assets	\$ 22,989,000	\$ 26,023,000
Lease receivable, less current portion	21,784,000	22,151,000
Capital assets, net	6,216,000	6,600,000
Total assets	50,989,000	54,774,000
Liabilities:		
Current liabilities	11,450,000	14,084,000
Long-term liabilities	7,851,000	8,157,000
Total liabilities	19,301,000	22,241,000
Deferred Inflows of Resources:		
Related to leases	21,682,000	22,297,000
Net Position:		
Net investment in capital assets	1,237,000	1,527,000
Restricted for capital projects	8,849,000	3,279,000
Unrestricted (deficit)	(80,000)	5,430,000
Total net position	\$ 10,006,000	\$ 10,236,000

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Management's Discussion and Analysis (Unaudited)

June 30, 2023

Net investment in capital assets (i.e., furniture and fixtures and right-to-use lease assets, net of accumulated depreciation and amortization and lease payable) and restricted funds for transportation projects, represent a large portion of the Division's net position. The Division uses these capital assets for the benefit and use by government agencies; consequently, these assets are not available for future spending and cannot be used to liquidate any liabilities. Restricted net position of \$8,849,000 and \$3,279,000 at June 30, 2023 and 2022, respectively, represent resources that are subject to external restrictions or enabling legislation on how they may be used. Unrestricted net position (deficit) were \$(80,000) and \$5,430,000 at June 30, 2023 and 2022, respectively.

The statement of activities reflects the changes in the Division's net position on the accrual basis of accounting.

The following presents a summarized of comparison of the changes in the Division's net position for the years ended June 30, 2023 and 2022.

Condensed Statements of Activities

Years Ended June 30, 2023 and 2022

(Rounded to nearest \$1,000)

	2023	2022
Revenues:		
Assessments	\$ 23,993,000	\$ 22,963,000
Federal grant revenues	17,295,000	29,071,000
Other	2,469,000	1,335,000
Total revenues	43,757,000	53,369,000
Expenses:		
Administration	25,324,000	40,806,000
Operating grants	9,815,000	10,422,000
Total expenses	35,139,000	51,228,000
Excess before transfers	8,618,000	2,141,000
Transfers, net	(8,848,000)	1,921,000
Change in net position	(230,000)	4,062,000
Net Position, beginning of the year	10,236,000	6,174,000
Net Position, end of the year	\$ 10,006,000	\$ 10,236,000

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Management's Discussion and Analysis (Unaudited)

June 30, 2023

For the year ended June 30, 2023, the Division's total revenues decreased by 9,612,000 or 18.0% as compared to the prior year. The decrease was primarily attributed to the decrease in federal grant revenue of \$11,776,000 or 40.5% due to an overall decrease in federal grants activity, offset by an increase in assessment revenues of \$1,030,000 or 4.5%.

For the year ended June 30, 2023, total expenses decreased by \$16,089,000 or 31.4% as compared to the prior year. The decrease was primarily attributable to the decrease in administration expenses of \$15,482,000 or 37.9% due to the decrease in expenses associated with federal grant activity. In addition, operating grants expense decreased by \$607,000 or 5.8%.

For the year ended June 30, 2023, net transfers decreased by \$10,769,000 as compared to the prior year. This was primarily attributable to \$8,914,000 of encumbered cash balances to be transferred back to the other divisions in September 2023.

For the year ended June 30, 2023, the Division's net position decreased by \$230,000, as compared to an increase in net position of \$4,062,000. The decrease in the current year's net position was attributable to net transfers out of \$8,848,000, offset by the excess of revenues over expenses of \$8,618,000.

Governmental Fund Financial Analysis

Within the governmental fund financial statements, the overall net (decrease) increase in the fund balance was \$(391,000) and \$3,719,000, for the years ended June 30, 2023 and 2022, respectively, and the total overall fund balance for the governmental funds as of June 30, 2023 and 2022 was \$10,312,000 and \$10,703,000, respectively.

Special Fund Budgetary Analysis

The annual budget for the Division is based on assessments to the Harbors, Highways and Airport Divisions of the Department of Transportation, as detailed in the notes to the financial statements. The significant differences between budgeted and actual revenues and expenditures in the special revenue funds were primarily attributed to federal grant programs. For the year ended June 30, 2023, total revenues differed by \$3,088,000 or 6.3% over budget, and total expenditures were \$10,382,000 or 19.4% below budget.

Capital Assets

As of June 30, 2023 and 2022, the Division had \$6,216,000 and \$6,600,000, respectively, in capital assets, net. The 2023 amount represents a net decrease of \$384,000 or 5.8% from 2022. For the year ended June 30, 2023, there was \$213,000 in additions, which consisted primarily of computer hardware and software. Net dispositions of capital assets totaled \$42,000 for the fiscal year ended June 30, 2023. Depreciation and amortization expense amounted to \$555,000 for the year ended June 30, 2023.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Management's Discussion and Analysis (Unaudited)

June 30, 2023

Included in capital assets were right-to-use lease assets (lease assets) reported in accordance with GASB Statement No. 87. Lease assets at June 30, 2023 were \$4,896,000, net of accumulated amortization of \$305,000.

Net capital assets (rounded to nearest \$1,000) as of June 30, 2023 and 2022 are as follows:

	2023	2022
Furniture and equipment	\$ 4,762,000	\$ 4,945,000
Less accumulated depreciation	(3,442,000)	(3,394,000)
	1,320,000	1,551,000
Lease assets	5,201,000	5,201,000
Less accumulated amortization	(305,000)	(152,000)
	4,896,000	5,049,000
Capital assets, net	\$ 6,216,000	\$ 6,600,000

Debt Administration

As of June 30, 2023, and 2022, the balance of a note payable to the Harbors Division (Harbors) was \$1,369,000 and \$1,538,000, respectively. The note is an existing liability payable to Harbors by ATDC (a blended component unit). The Division did not have any debt financing for 2023 and 2022.

Currently Known Decisions and Facts

None.

**ADMINISTRATIVE DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Statement of Net Position - Governmental Activities

June 30, 2023

Assets:

Current assets:	
Cash and cash equivalents	\$ 21,380,403
Accounts receivable	1,190,336
Lease receivable, current portion	367,336
Other receivables	<u>50,511</u>
Total current assets	22,988,586
Non-current assets:	
Lease receivable, less current portion	21,783,763
Capital assets, net	<u>6,215,755</u>
Total assets	<u>50,988,104</u>

Liabilities:

Current liabilities:	
Accounts payable	1,555,961
Accrued payroll	417,353
Other payables	35,127
Lease payable, current portion	96,439
Accrued vacation, current portion	430,751
Due to other divisions and funds	<u>8,914,027</u>
Total current liabilities	<u>11,449,658</u>
Long-term liabilities:	
Due to general fund	2,550
Lease payable, less current portion	4,882,360
Accrued vacation, less current portion	1,597,477
Note payable to Department of Transportation, Harbors Division	<u>1,368,701</u>
Total long-term liabilities	<u>7,851,088</u>
Total liabilities	<u>19,300,746</u>

Deferred Inflows of Resources:

Related to leases	<u>21,681,800</u>
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Net Position:

Net investment in capital assets	1,236,956
Restricted for transportation projects	8,848,517
Unrestricted (deficit)	<u>(79,915)</u>
Total net position	<u>\$ 10,005,558</u>

See accompanying notes financial statements.

**ADMINISTRATIVE DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Statement of Activities - Governmental Activities

Year Ended June 30, 2023

Functions/ Programs	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net Revenues (Expenses) and Changes in Net Position</u>
Governmental activities:			
Administration	\$ 25,323,861	\$ -	\$ (25,323,861)
Operating grants	9,815,425	-	(9,815,425)
Total governmental activities	<u>35,139,286</u>	<u>-</u>	<u>(35,139,286)</u>
General Revenues:			
Assessments			23,993,066
Federal grant revenues			17,294,550
Investment earnings			326,425
Miscellaneous			2,142,934
Total general revenues			<u>43,756,975</u>
Excess revenues over expenses			8,617,689
Transfers, net			<u>(8,848,517)</u>
Change in net position			(230,828)
Net Position:			
Beginning of year			<u>10,236,386</u>
End of year			<u><u>\$ 10,005,558</u></u>

See accompanying notes financial statements.

**ADMINISTRATIVE DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Balance Sheet - Governmental Funds

June 30, 2023

	Restricted Funds			Admin Fund	Other	Total
	S-21X-23X	S-24X-28X	S-5XX		Governmental Funds	Governmental Funds
Assets:						
Cash and cash equivalents	\$ 116,486	\$ 756,292	\$ 68,000	\$ 15,369,711	\$ 5,069,914	\$ 21,380,403
Accounts receivable	923,100	260,465	6,771	-	-	1,190,336
Total assets	<u>\$ 1,039,586</u>	<u>\$ 1,016,757</u>	<u>\$ 74,771</u>	<u>\$ 15,369,711</u>	<u>\$ 5,069,914</u>	<u>\$ 22,570,739</u>
Liabilities:						
Accounts payable	\$ 923,100	\$ 260,465	\$ 6,771	\$ 365,625	\$ -	\$ 1,555,961
Accrued payroll	-	-	-	417,353	-	417,353
Due to general funds	-	-	-	2,550	-	2,550
Note payable to Department of Transportation, Harbor Division	-	-	-	-	1,368,701	1,368,701
Due to other divisions and funds	-	-	-	8,848,517	65,510	8,914,027
Total liabilities	<u>923,100</u>	<u>260,465</u>	<u>6,771</u>	<u>9,634,045</u>	<u>1,434,211</u>	<u>12,258,592</u>
Fund Balances:						
Assigned	16,486	84,763	68,000	523,951	815,143	1,508,343
Unassigned	100,000	671,529	-	5,211,715	2,820,560	8,803,804
Total fund balances	<u>116,486</u>	<u>756,292</u>	<u>68,000</u>	<u>5,735,666</u>	<u>3,635,703</u>	<u>10,312,147</u>
Total liabilities and fund balances	<u>\$ 1,039,586</u>	<u>\$ 1,016,757</u>	<u>\$ 74,771</u>	<u>\$ 15,369,711</u>	<u>\$ 5,069,914</u>	<u>\$ 22,570,739</u>

See accompanying notes financial statements.

**ADMINISTRATIVE DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2023

Total fund balances - governmental funds	\$ 10,312,147
Amounts reported for governmental activities in the statement of net position are different because:	
Lease receivables are reported in the government-wide financial statements but are not reported in the governmental fund statements	22,151,099
Other receivables are reported in the government-wide financial statements but are not reported in the governmental fund statements	50,511
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	6,215,755
Lease payables not reported in the governmental funds	(4,978,799)
Other payables not reported in the governmental funds	(35,127)
Accrued employee benefits payable not reported in the governmental funds	(2,028,228)
Deferred inflows of resources related to leases reported in the government-wide financial statements but are not reported in the governmental fund statements	<u>(21,681,800)</u>
Total net position - governmental activities	<u><u>\$ 10,005,558</u></u>

See accompanying notes financial statements.

**ADMINISTRATIVE DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2023

	Restricted Funds			Admin Fund	Other	Total
	S-21X-23X	S-24X-28X	S-5XX		Governmental Funds	Governmental Funds
Revenues:						
Assessments	\$ -	\$ -	\$ -	\$ 23,993,066	\$ -	\$ 23,993,066
Federal grant revenues	2,232,582	8,073,361	6,988,607	-	-	17,294,550
Other	-	-	-	398,491	1,815,142	2,213,633
Total revenues	<u>2,232,582</u>	<u>8,073,361</u>	<u>6,988,607</u>	<u>24,391,557</u>	<u>1,815,142</u>	<u>43,501,249</u>
Expenditures:						
Personal services	-	46,902	-	9,951,169	10,691	10,008,762
Other	2,232,582	8,026,459	6,988,607	7,575,807	211,199	25,034,654
Total expenditures	<u>2,232,582</u>	<u>8,073,361</u>	<u>6,988,607</u>	<u>17,526,976</u>	<u>221,890</u>	<u>35,043,416</u>
Revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,864,581</u>	<u>1,593,252</u>	<u>8,457,833</u>
Other Financing Sources (Uses):						
Transfers in	-	29,871	-	-	2,500	32,371
Transfers out	(29,871)	-	-	(8,851,017)	-	(8,880,888)
Total other financing sources (uses)	<u>(29,871)</u>	<u>29,871</u>	<u>-</u>	<u>(8,851,017)</u>	<u>2,500</u>	<u>(8,848,517)</u>
Net change in fund balances	(29,871)	29,871	-	(1,986,436)	1,595,752	(390,684)
Fund balances:						
Fund balances, beginning of year	<u>146,357</u>	<u>726,421</u>	<u>68,000</u>	<u>7,722,102</u>	<u>2,039,951</u>	<u>10,702,831</u>
Fund balances, end of year	<u>\$ 116,486</u>	<u>\$ 756,292</u>	<u>\$ 68,000</u>	<u>\$ 5,735,666</u>	<u>\$ 3,635,703</u>	<u>\$ 10,312,147</u>

See accompanying notes financial statements.

**ADMINISTRATIVE DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities

Year Ended June 30, 2023

Total net change in fund balances - governmental funds	\$ (390,684)
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Amounts reported for governmental activities that are different
in the statement of activities are difference because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets are depreciated over their estimated
useful lives as depreciation expense

Capital asset outlays, net transfers and disposals	170,834
Depreciation and amortization expense	(554,736)

Other revenues and expenses reported in the government-wide financial statements
that do not provide or use current financial resources and therefore are not reported
as revenues and expenditures in the governmental funds.

Change in lease receivable	(358,641)
Change in other receivables	(817)
Change in deferred inflows of resources related to lease	615,183
Change in accrued vacation	193,337
Change in lease payable	94,092
Change in other payables	604

Change in net position of governmental activities	\$ (230,828)
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See accompanying notes financial statements.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

(1) Financial Reporting Entity

The Department of Transportation of the State of Hawaii was formed shortly after Hawaii became a state in 1959. It has three divisions, Airports, Harbors and Highways, which are supported by 10 departmental staff offices. The Administration Division, Department of Transportation, State of Hawaii (the Division) consists of the Office of the Director of Transportation, Departmental Staff Services Offices, and the Statewide Transportation Planning Office. Collectively, these offices provide the overall administrative support of the Department of Transportation (the DOT).

The Statewide Transportation Planning Office is responsible for the administration of certain U.S. Department of Transportation, Federal Transit Administration (the FTA) and Federal Highway Administration (the FHWA) federal grants awarded to the DOT.

The financial statements reflect only the Division's financial activities as well as the financial activities of Aloha Tower Development Corporation (ATDC), a blended component unit of the Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii (the State) as of June 30, 2023, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP). The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which includes the Division's financial activities.

(2) Significant Accounting Policies

The Division's financial statements are prepared in accordance with GAAP, as prescribed by Governmental Accounting Standards Board (the GASB). The more significant accounting policies established in GAAP and used by the Division are discussed below.

Measurement Focus, Basis of Accounting, and Financial Position

Government-Wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information of all the nonfiduciary activities of the Division. Interfund activity has been removed from these government-wide statements. The economic resources measurement focus and the accrual basis of accounting are used to report the government-wide financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as soon as all eligibility requirements have been met.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

The statement of net position includes all capital assets and long-term liabilities that are excluded from the governmental funds financial statements. The net position is reported in three categories: net investment in capital assets, restricted for transportation projects, and unrestricted. Restricted components are restricted by parties outside of the State (such as citizens, public interest groups or the judiciary) or imposed by law through enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Division's policy to use restricted resources first, then unrestricted resources as they are needed.

Net position is restricted when legally enforceable enabling legislation places restrictions or are externally imposed by citizens and/or public interest groups. Additionally, restricted net position is re-evaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the government has other cause for reconsideration. Internally imposed designations of resources are not presented as restricted components of net position.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included in program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The Division does not allocate general government (indirect) expenses to other functions.

Governmental Funds Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Division considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred as of fiscal year-end and funds are available.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

Expenditures are generally recorded when a liability is incurred, as under the accrual basis accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Encumbrances are recorded obligations in the form of purchase orders or contracts. The Division records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at fiscal year-end are reported as restrictions, assignments, or commitments of fund balances since they do not constitute expenditures or liabilities.

The governmental funds account of the Division are organized on the basis of funds, each of which is deemed to be a separate accounting entity. The Division uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the Division that are reported in the accompanying fund financial statements have been classified into the following major governmental fund:

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The special revenue funds were established to account for the contracts that the State entered into for the Division with the FHWA, the FTA, and those between the Division and FTA prior to enactment of the Intermodal Surface Transportation Efficiency Act of 1991. The special revenue funds also include the transactions and balances of ATDC, a blended component unit.

The Division classifies fund balances based primarily on the extent to which it is bound to follow constraints on how resources can be spent. Classifications used by the Division are:

Restricted – Balances that are restricted for specific purposes by external parties such as creditors, grantors or laws and regulations of other governments.

Committed – Balances that can only be used for specific purposes pursuant to action of the State Legislature, the highest level of decision-making authority. Legislation is required to modify or rescind a fund balance commitment.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

Assigned – Balances that are constrained by management for specific purposes as authorized by the Hawaii Revised Statutes, but are not restricted or committed. For general fund only, encumbrance balances at fiscal year-end are classified as assigned.

Unassigned – Residual balances that are not contained in the other classifications.

The Division’s special revenue funds consist of specific revenue sources restricted or committed to expenditure for specific purposes other than debt service or capital projects. Restricted and committed revenues are expected to comprise a substantial portion of the fund inflows. Funds not meeting these criteria are reported in the general fund. The spending policy of the Division’s special revenue funds is, in order of priority, restricted, committed, and then assigned. The Division’s classification of special revenue fund inflows are restricted (federal grants), program revenues (committed), transfers from other funds (assigned), investment income (assigned unless restricted), and miscellaneous revenues (assigned). The Division’s special revenue funds are not encumbered.

Cash and Cash Equivalents

The State Director of Finance is responsible for the safekeeping of all monies deposited into the State Treasury in accordance with State laws. The Director of Finance pools and invests any monies of the State, which in the Director of Finance’s judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury investment pool. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

The State requires that depository banks pledge, as collateral, government securities held in the name of the State for deposits not covered by Federal deposit insurance.

Substantially all of the Division’s monies are held in the State investment pool, which amounted to \$21,377,803 at June 30, 2023. GAAP requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit, and custodial risk assumed by the Division. However, as the Division’s monies are held in the State investment pool, the Division does not manage these investments and the types of investments, and related interest rate, credit, and custodial risk are not determinable at the Division level. The risk and fair value disclosures related to the State’s investment pool are included in State’s Annual Comprehensive Financial Report (ACFR) which may be obtained from the State Department of Accounting and General Services’ website: <https://ags.hawaii.gov/accounting/annual-financial-reports>.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

The Division also maintains cash in bank which is held separately from cash in the State Treasury. As of June 30, 2023, the carrying amount of the total bank balance was approximately \$2,600, which is insured by the Federal Deposit Insurance Corporation.

Receivables

Receivables are reported at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. The allowance for uncollectible accounts is based on collection history and current information regarding the creditworthiness of those doing business with the Division. When continued collection activity results in receipt of amounts previously written off, revenue is recognized for the amount collected.

Deferred Inflows of Resources

Deferred inflows of resources represent a benefit to net position that applies to a future period. The deferred inflows of resources related to leases will be amortized over the lease term.

Assessment Revenues

In accordance with Section 30, Chapter 36, of the Hawaii Revised Statutes (HRS), the Division reports as assessment revenues a percentage of the Airports, Harbors, and Highways Divisions' State allotted appropriations for the cost of the general administration expenses of the DOT.

On a quarterly basis, the divisions of DOT transfer their pro-rata share of their budgetary appropriation to cover their share of the operation expenses incurred by the Division. The unencumbered cash balances at the end of each fiscal year are transferred back to the respective divisions in accordance with their pro-rata share percentage. These amounts are reported as due to other divisions and funds and totaled \$8,914,027 at June 30, 2023. The \$8,848,517 reflected as other financing sources - transfers, net is the amount of unencumbered cash balances transferred back to the other divisions and other funds during 2023.

Interfund and Intrafund Transfers

Significant transfers of financial resources between activities within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them are recorded as operating transfers in the financial statements.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

Compensated Absences

The Division's policy is to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred in the accompanying government-wide financial statements. A liability for these amounts is reported in the governmental funds financial statements only if they have matured, for example, as a result of employee resignations and retirements.

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported in the government-wide statement of net position at cost. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Such capital acquisitions are recorded as expenditures in the governmental funds financial statements. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation expense is computed using the straight-line method over estimated useful lives of five to seven years for furniture and equipment.

Capital assets also include right-to-use lease assets (lease assets). Refer to *Leases* section below for the Division's accounting policy for lease assets and related amortization.

Leases

As Lessee

The Division recognizes lease liabilities and lease assets in the government-wide financial statements for leases with an initial, individual value of \$100,000 or more for land and building leases and \$25,000 or more for furniture, equipment, and other leases, with a lease term greater than one year. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease liability.

At the commencement of a lease, the Division initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

Lease assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the lease assets into service. Lease assets are amortized using the straight-line method over the shorter of the lease

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

term or the useful life of the underlying asset, unless the lease contains a purchase option that the Division has determined is reasonably certain of being exercised. In this case, the lease asset is amortized over the useful life of the underlying asset.

Key estimates and judgments related to leases include how the Division determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Division uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Division generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Division is reasonably certain to exercise.

The Division monitors changes in circumstances that would require a remeasurement of its lease and will remeasure any lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported along with other capital assets (see Note 5) and lease liabilities are reported as lease payable (see Note 6) in the accompanying statement of net position – governmental activities.

As Lessor

The Division recognizes a lease receivable and a deferred inflows of resources in the financial statements. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease receivable.

At the commencement of a lease, the Division initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflows of resources are initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources are recognized as revenue over the life of the lease term in a systematic and rational method.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

Key estimates and judgments include how the Division determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The Division uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The Division monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

Risk Management

The Division is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; workers' compensation; and acts of terrorism. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss is reasonably estimable.

Recently Issued Accounting Pronouncements

GASB Statement No. 96

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Implementation of this statement, effective July 1, 2022, did not have a significant effect on the Division's financial statements for the year ended June 30, 2023.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

GASB Statement No. 99

The GASB issued Statement No. 99, *Omnibus*. The primary objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this statement are effective immediately while other requirements are effective for reporting periods beginning after June 15, 2022 and June 15, 2023, respectively. The requirements that were effective immediately and beginning after June 15, 2022 did not have a material effect on the Division's financial statements. For the remaining requirements, the Division is currently evaluating the impact that this statement will have on its financial statements.

GASB Statement No. 100

The GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for reporting periods beginning after June 15, 2023. The Division is currently evaluating the impact that this statement will have on its financial statements.

GASB Statement No. 101

The GASB issued Statement No. 101, *Compensated Absences*. The primary objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The requirements of this statement are effective for reporting periods beginning after December 15, 2023. The Division is currently evaluating the impact that this statement will have on its financial statements.

(3) Budgeting and Budgetary Control

The Division's budget is established through the State's budgetary process. The State's budget is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the schedule of revenues and expenditures - budget and actual (non-GAAP budgetary basis) - special revenue funds are those estimates as

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act, Supplemental Appropriations Act, and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes, and other specific appropriations acts in various State Legislative Hearings.

All expenditures of appropriated funds are made pursuant to the appropriations in the biennial budget.

The special revenue funds have legally appropriated annual budgets. The special revenue funds' appropriated budgets are for projects that may extend over several fiscal years.

The final legally adopted budget in the accompanying schedule of revenues and expenditures – budget and actual (non-GAAP budgetary basis) – special revenue funds represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the level of control are maintained by and are available at the Department of Accounting and General Services.

To the extent not expended or encumbered, the special revenue funds' appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the special revenue fund are presented in the schedule of revenues and expenditures – budget and actual (budgetary basis) – special revenue funds. The State's annual budget is prepared on the modified-accrual basis of accounting with several differences, principally related to (1) the encumbrance of purchase order and contract obligations acquired through long-term financing (basis difference) and (2) the accounting for transfers of and equipment debt service payments through the special revenue funds (perspective difference), which represent departures from GAAP.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

Adjustments necessary to convert the results of operations and fund balances for the year ended June 30, 2023 from the GAAP basis to the budget basis are as follows:

Excess of revenues and expenditures over transfers, GAAP basis	<u>\$ (390,684)</u>
Increase (decrease) in revenues:	
Current year receivables	(1,190,336)
Prior year receivables	<u>9,544,911</u>
	<u>8,354,575</u>
Increase (decrease) in expenditures:	
Current year accrued liabilities	1,975,864
Prior year accrued liabilities	(10,051,331)
Current year encumbrances, net of adjustments	(714,717)
Prior year encumbrances	<u>706,357</u>
	<u>(8,083,827)</u>
Excess of expenditures and transfers over revenues, budgetary basis	<u><u>\$ (119,936)</u></u>

(4) Lease Receivable

Portions of the Division's property is leased to others (see Note 11). Such property includes facilities and land. Lease receivable consists of agreements with other for the right-to-use of the underlying assets at various locations owned by the Division. The terms of the arrangements range from 3 to 60 years. The calculated interest rates used was 2.87%. For the fiscal year ended June 30, 2023, the State recognized \$615,183 in lease revenue and \$640,541 in interest income.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

A summary of changes in lease receivable for the fiscal year ended June 30, 2023 is as follows:

<u>Balance July 1, 2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2023</u>	<u>Due Within One Year</u>
\$ 22,509,740	\$ -	\$ (358,641)	\$ 22,151,099	\$ 367,336

Lease receivable are due in the upcoming year as follows:

<u>Fiscal Years Ending June, 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 367,336	\$ 632,664	\$ 1,000,000
2025	379,753	620,247	1,000,000
2026	390,797	609,203	1,000,000
2027	402,161	597,839	1,000,000
2028	412,245	587,755	1,000,000
2029 - 2033	2,255,200	2,744,800	5,000,000
2034 - 2038	2,602,868	2,397,132	5,000,000
2039 - 2043	3,004,143	1,995,857	5,000,000
2044 - 2048	3,466,571	1,533,429	5,000,000
2049 - 2053	4,002,091	997,909	5,000,000
2054 - 2058	4,619,129	380,871	5,000,000
2059	248,805	1,195	250,000
	<u>\$ 22,151,099</u>	<u>\$ 13,098,901</u>	<u>\$ 35,250,000</u>

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

(5) Capital Assets

The following is a summary of the changes in capital assets during the year ended June 30, 2023, were as follows:

	Balance July 1, 2022	Additions	Disposals	Balance June 30, 2023
Furniture and equipment	\$ 4,944,681	\$ 212,573	\$ 395,034	\$ 4,762,220
Less accumulated depreciation	(3,393,533)	(402,184)	(353,295)	(3,442,422)
	<u>1,551,148</u>	<u>(189,611)</u>	<u>41,739</u>	<u>1,319,798</u>
Lease assets:				
Building and improvements	5,153,474	-	-	5,153,474
Equipment	47,587	-	-	47,587
Less accumulated amortization	(152,552)	(152,552)	-	(305,104)
	<u>5,048,509</u>	<u>(152,552)</u>	<u>-</u>	<u>4,895,957</u>
Total capital assets, net	<u>\$ 6,599,657</u>	<u>\$ (342,163)</u>	<u>\$ 41,739</u>	<u>\$ 6,215,755</u>

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

(6) Lease Payable

The Division has entered into a lease for the use of certain facilities (see Note 11) and equipment. The terms of the agreements range from 4 to 58 years. The calculated interest rate used was 2.87%.

Year Ending June 30,	Principal	Interest	Total
2024	\$ 96,439	\$ 142,217	\$ 238,656
2025	95,056	139,049	234,105
2026	88,545	136,455	225,000
2027	91,114	133,886	225,000
2028	93,400	131,600	225,000
2029 - 2033	510,808	614,192	1,125,000
2034 - 2038	589,355	535,645	1,125,000
2039 - 2043	679,982	445,018	1,125,000
2044 - 2048	784,391	340,610	1,125,001
2049 - 2053	905,248	219,752	1,125,000
2054 - 2058	1,044,461	80,539	1,125,000
Total	<u>\$ 4,978,799</u>	<u>\$ 2,918,963</u>	<u>\$ 7,897,762</u>

(7) Changes in Long-Term Liabilities

Changes in non-current liabilities during the year ended June 30, 2023 were as follows:

	Balance July 1, 2022	Additions	Reductions	Balance June 30, 2023	Due within one year
Due to general fund	\$ 2,550	\$ -	\$ -	\$ 2,550	\$ -
Lease payable (Note 6)	5,072,891	-	94,092	4,978,799	96,439
Accrued vacation	2,221,565	511,910	705,247	2,028,228	430,751
Note payable-DOT Harbors (Note 12)	1,537,513	-	168,812	1,368,701	-
	<u>\$ 8,834,519</u>	<u>\$ 511,910</u>	<u>\$ 968,151</u>	<u>\$ 8,378,278</u>	<u>\$ 527,190</u>

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

(8) Retirement Benefits

Pension Plan

Plan Description

Generally, all full-time employees of the State and counties, which include the Division, are required to be members of the Employees' Retirement System of the State of Hawaii (the ERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State's pension benefits program. Benefits, eligibility, and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation.

Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

Noncontributory Class

Retirement Benefits

General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

Death Benefits

For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no surviving spouse/reciprocal beneficiary or surviving dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at time of death with at least 10 years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and surviving dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the surviving dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

Retirement Benefits

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

Death Benefits

For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no surviving spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Members Hired After June 30, 2012

Retirement Benefits

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 60.

Disability and Death Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. 10 years of credited service is required for ordinary disability.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

Hybrid Class for Members Hired Prior to July 1, 2012

Retirement Benefits

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

Death Benefits

For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

Hybrid Class for Members Hired After June 30, 2012

Retirement Benefits

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60.

Disability and Death Benefits

Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate for fiscal year 2023 was 24.0% for general employees. Contributions to the pension plan from the Division were approximately \$1,452,000 for the year ended June 30, 2023.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

Measurement of the actuarial valuation is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the Division. It is the State's policy to recognize the proportionate share of the pension liability, pension expense, deferred inflows related to pension, and deferred outflows related to pension for only component units and

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

proprietary funds that are reported separately in the State's ACFR. Therefore, the Division's proportionate share of the net pension liability, pension expense, deferred inflows related pensions and deferred outflows related to pension are not included in the financial statements. The State's ACFR includes the required disclosures and required supplementary information on the State's pension plan.

Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. The ERS's complete financial statements are available at <https://ers.ehawaii.gov/resources/financials>.

Postemployment Health Care and Life Insurance Benefits

Plan Description

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, Session Laws of Hawaii (SLH) 2001, the State contributes to the Hawaii Employer-Union Health Benefits Trust Fund (the EUTF), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues a publicly available annual financial report that can be obtained at <https://eutf.hawaii.gov/report>. The report may also be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

For employees hired before July 1, 1996, the State pays the entire monthly contribution for employees retiring with 10 years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Measurement of the actuarial valuation is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the Division. It is the State's policy to recognize the proportionate share of the net other postemployment benefit (OPEB) liability, OPEB expense, deferred outflows of resources, and deferred inflows of resources related to OPEB for only component units and proprietary funds that are reported separately in the State's ACFR. Therefore, the Division's proportionate share of the net OPEB liability, OPEB expense, deferred inflow related to OPEB, and deferred outflow related to the OPEB are not included in the financial statement. The State's ACFR includes the required disclosures and required supplementary information on the State's OPEB Plan.

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. The employer is required to make all contributions for members.

The Division's share of the non-pension post-retirement benefits was included as an item to be expended by the Department of Budget and Finance and is not reflected in the Division's financial statements.

(9) Deferred Compensation Plan

The State offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all State employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the Plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying financial statements.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

(10) Commitments and Contingencies

Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for unpaid sick leave is reported in the accompanying financial statements. However, a Division employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. The Division's accumulated sick leave as of June 30, 2023, was approximately \$4,514,000.

Risk Management

The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past ten fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance

The State has an insurance policy with various insurers for property coverage. The limit of loss per occurrence is \$200,000,000, except for terrorism losses, which has a \$100,000,000 per occurrence limit. There are two different types of deductibles for the property coverage. The deductible for losses such as hurricanes, floods and earthquakes are 3% of the replacement costs to the property subject to a \$1,000,000 per occurrence minimum. The deductible for all other perils such as a fire and terrorism is \$1,000,000.

Crime Insurance

The State also has a crime insurance policy for various types of coverages with a limit of loss of \$10,000,000 per occurrence with a \$500,000 deductible per occurrence, except for clients property which has a \$5,000,000 limit per occurrence and a \$500,000 deductible and claims expense coverage, supplemental funds transfer coverage, and social engineering which has a \$100,000 limit per occurrence and a \$500,000 deductible. Losses under the deductible amount are paid by the Risk Management Office of the Department of Accounting and General Services, and losses not covered by insurance are paid from the State's General Fund.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

Casualty and Professional Liability

Liability claims up to \$25,000 are handled by the Risk Management Office. All other claims are handled by the Department of the Attorney General. The State has various types of coverages with a \$5,000,000 self-insured retention per occurrence, including double \$2,500,000 corridor. The annual aggregate limit for the various coverages is \$5,000,000. Losses under the deductible amount but over the Risk Management Office authority or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

Cyber Liability Insurance

The State is insured for various types of cyber-related activities with a loss limit of \$5,000,000 with a deductible of \$5,000,000 per claim. This policy covers all departments and divisions except for the University of Hawaii (the UH) and includes (with sub-limits) system failure business interruption, dependent business interruption and system failure, bricking of hardware, consequential reputation loss, and voluntary shutdown. The UH has a separate cyber policy with a loss limit of \$5,000,000 and a deductible of \$1,000,000.

Self-Insured Risks

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses up to \$25,000 per claim are administered by the Risk Management Office. The State administers its workers' compensation losses via the Department of Human Resources and Development. The Division is covered under the State's self-insurance program for workers' compensation.

(11) Blended Component Unit – Aloha Tower Development Corporation

ATDC, a blended component unit of the Division, is a state agency established under HRS Chapter 206J, primarily to redevelop the Aloha Tower complex in Honolulu. The complex encompasses Piers 5 to 23 of Honolulu Harbor. In September 1993, the Harbors Division, State of Hawaii, Department of Transportation (Harbors), entered into a lease with the ATDC which grants a leasehold interest in portions of the Aloha Tower complex to ATDC. ATDC is required annually to reimburse Harbors for any losses in revenue during the term of the lease caused by any action of ATDC or the developer of the Aloha Tower complex and to provide replacement facilities for maritime activities at no cost to Harbors.

ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer and entered into a capital improvements, maintenance, operations, and securities agreement with the developer and Harbors. Harbors continues to operate the harbor facilities at Piers 8, 9, and 10.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

The sublease between the ATDC and the developer requires the developer to construct, at the developer's cost, various facilities as designated in the developer's proposal, including a Marketplace, and to reimburse Harbors for all losses in revenue and increased expenses which may be incurred by Harbors. The lease was subsequently amended and requires ATDC to pay \$225,000 each year to Harbors as a minimum base payment for losses in revenue related to fiscal years beginning July 1, 2005, that, subject to approval, may be reduced for certain expenses incurred by ATDC. The Amendment also requires an equity participation payment to be made in an amount of 50% of the difference between the total revenues and total operating expenses of ATDC for a fiscal year (the equity payment), provided that if the equity payment exceeds two and one-half times the actual operating expenses of ATDC for such fiscal year, ATDC must make a supplemental payment equal to 75% of the difference between the equity payment and the product of two and one-half times the actual operating expenses of ATDC. These payments were to be applied to reduce the amount owed to the Harbors for losses in revenue by ATDC prior to July 1, 2004. During the year ended June 30, 2023, there were no equity payments made. See Note 5 and 6 for reported lease assets and lease payable related to the lease.

During the year ended June 30, 2015, the State of Hawaii entered into a successor memorandum of understanding with ATDC and Hawaii Lifestyle Retail Properties, LLC (HLRP) whereby ATDC agreed to abate rent in the amount of \$1 million under the lease between ATDC and HLRP for the period retroactive to July 1, 2014 to June 30, 2015 in consideration for the construction of HLRP improvements at Aloha Tower Marketplace to create student and faculty residences and various university spaces for Hawaii Pacific University and to memorialize the understanding of the parties with respect to various aspects of its agreement. ATDC did not receive any rent revenue during this period and was unable to make any equity participation payments to Harbors. Rent collection resumed for the year ended June 30, 2016, resulting in collections of \$1 million for that year.

The successor memorandum of understanding also amended the obligations owed to Harbors, which arose from the original Aloha Tower Marketplace construction. The obligations are valued at \$3.5 million, depending upon when actual payments are made by the operator of Aloha Tower Marketplace within a six year timeframe ending June 2016. ATDC and Harbors are discussing with HLRP pathways forward to update obsolete sections of the lease documents for the Aloha Tower complex and to address any HLRP outstanding obligations.

Rental income collected under the agreement was \$1,000,000 for the year ended June 30, 2023. See Note 4 for reported lease receivable related to this lease.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2023

(12) Note Payable to Department of Transportation, Harbors Division

During the year ended June 30, 2012, the administration of ATDC was assigned to the DOT by Act 152, SLH 2011. Accordingly, the balance of an outstanding note payable from ATDC to Harbors of \$4,923,067 was recognized as a transfer to the Division during the year ended June 30, 2012 (See Note 11). During the year ended June 30, 2023, a payment of \$168,812 was made on the balances of the outstanding note. As of June 30, 2023, the balance of the note amounted to \$1,368,701. The note does not require specific payments of interest. Supplemental payments to Harbors are required under an amendment to the sublease agreement between ATDC and the developer of land surrounded by Pier 10, which reduce the amount owed to the Harbors Division for losses in revenue by ATDC prior to July 1, 2004 (see Note 11).

(13) Subsequent Events

The Division has evaluated subsequent events through December 19, 2023, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Required Supplementary Information (Unaudited)

Schedule of Revenues and Expenditures - Budget and Actual
(Non-GAAP Budgetary Basis) - Special Revenue Funds

Year Ended June 30, 2023

	Original and Final Budget	Actual	Variance - Favorable (Unfavorable)
Revenues:			
Assessments	\$ 23,883,066	\$ 23,993,066	\$ 110,000
Federal grant revenues	23,034,385	25,649,125	2,614,740
Other	1,842,173	2,205,273	363,100
Total revenues	<u>48,759,624</u>	<u>51,847,464</u>	<u>3,087,840</u>
Expenditures:			
Personal services	14,612,580	9,959,368	4,653,212
Other	38,888,023	33,159,515	5,728,508
Total expenditures	<u>53,500,603</u>	<u>43,118,883</u>	<u>10,381,720</u>
Excess of revenues over (under) expenditures	(4,740,979)	8,728,581	13,469,560
Transfers, net	<u>-</u>	<u>(8,848,517)</u>	<u>(8,848,517)</u>
Excess of expenditures and transfers over revenues	<u>\$ (4,740,979)</u>	<u>\$ (119,936)</u>	<u>\$ 4,621,043</u>

See accompanying notes financial statements.

SUPPLEMENTARY INFORMATION

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Grant Number	Provided to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION:				
Federal Transit Administration:				
Federal Transit Cluster:				
Federal Transit - Capital Investment Grants	20.500	HI-03-0038	\$ 1,115,884	\$ 1,115,884
Federal Transit Formula Grants	20.507	HI-2022-007	6,856,854	6,856,854
Bus and Bus Facilities Formula Program	20.526	HI-2016-002	67,983	67,983
		HI-2017-003	594,416	594,416
		HI-2018-010	1,474,199	1,474,199
		HI-2019-007	960,000	960,000
		HI-2019-008	131,753	131,753
		HI-2021-002	97,500	97,500
Total 20.526			<u>3,325,851</u>	<u>3,325,851</u>
Total Federal Transit Cluster:			<u>11,298,589</u>	<u>11,298,589</u>
Metropolitan Transportation Planning and State and Non-Metro Planning and Research	20.505	HI-2019-015	17,715	17,715
		HI-2021-008	85,100	85,100
Total 20.505			<u>102,815</u>	<u>102,815</u>
Formula Grants for Rural Areas	20.509	HI-2019-012	727,632	727,632
	COVID-19	HI-2020-006	236,457	236,457
		HI-2021-003	375,501	375,501
	COVID-19	HI-2021-006	647,166	647,166
		HI-2022-006	2,819,657	2,819,657
Total 20.509			<u>4,806,413</u>	<u>4,806,413</u>
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	HI-2020-008	13,000	13,565
Total 20.513			<u>13,000</u>	<u>13,565</u>
Rail Fixed Guideway Public Transportation System State Safety Oversight Formula Grant	20.528	HI-2017-005	-	24,627
		HI-2022-001	242,432	242,432
Total 20.528			<u>242,432</u>	<u>267,059</u>
Total Federal Transit Administration			<u>16,463,249</u>	<u>16,488,441</u>
Federal Highway Administration:				
Highway Planning and Construction Cluster:				
Highway Planning and Construction	20.205	SPR-0010(41)	122,592	122,592
		SPR-0010(44)	368,857	398,438
		SPR-0010(46)	213,799	213,799
		SPR-0010(50)	-	19,998
		SPR-010A(50)	51,282	51,282
Total Federal Highway Administration			<u>756,530</u>	<u>806,109</u>
Total Federal Expenditures			<u>\$ 17,219,779</u>	<u>\$ 17,294,550</u>

See accompanying independent auditor's report and notes to schedule of expenditures of federal awards.

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Administration Division, Department of Transportation, State of Hawaii (the Division), under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Division, it is not intended to and does not present the financial position and changes in net position of the Division.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Indirect Cost Rate

The Division has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

PART III

**INTERNAL CONTROL OVER FINANCIAL REPORTING
AND COMPLIANCE**

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Auditor
State of Hawaii:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Governmental Auditing Standards*), the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of the Administration Division, Department of Transportation, State of Hawaii (the Division) as of and for the year ended June 30, 2023, and the related notes to financial statements, which collectively comprise the Division's basic financial statements, and have issued our report thereon dated, December 19, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Division's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Division's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KKDL Y LLC

Honolulu, Hawaii
December 19, 2023

PART IV

**COMPLIANCE AND INTERNAL CONTROL OVER
FEDERAL AWARDS**

Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

The Auditor
State of Hawaii:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Administration Division, Department of Transportation, State of Hawaii's (the Division) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Division's major federal programs for the year ended June 30, 2023. The Division's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Division complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Governmental Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditors' Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Division and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Division's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Division's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Division's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Division's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Division's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Division's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the *Auditors' Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose

KKDLY LLC

Honolulu, Hawaii
December 19, 2023

**ADMINISTRATION DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII**

Schedule of Findings and Questioned Costs

Year Ended June 30, 2023

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ___ Yes No
- Significant deficiency(ies) identified? ___ Yes None reported

Noncompliance material to financial statements noted? ___ Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ___ Yes No
- Significant deficiency(ies) identified? ___ Yes None reported

Type of auditors’ report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? ___ Yes No

Identification of major federal programs:

Federal Assistance

Listing Number

Name of Federal Program or Cluster

20.205 U.S. Department of Transportation – Federal Highway Administration – Highway Planning and Construction

20.509 U.S. Department of Transportation – Federal Transit Administration – Formula Grants for Rural Areas

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.